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FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 80
WEEK OF 1 DECEMBER - 7 DECEMBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The USSR is using the FEC as a propaganda vehicle in an attempt to discredit US policies in Japan (page 3).

A 5-year rehabilitation plan for Asia, proposed by a special working committee of the UN Economic Commission for Asia and the Far East, has been criticized by both the Soviet and Indian delegations to the ECAFE Conference which is now meeting in Australia (page 3).

The expected UN approval of the Republic of Korea (South) as the only lawful government in Korea will relieve tension in that area (page 6). The ambitious plan for a national defense organization adopted by the Republic of Korea must depend on foreign military and economic aid for its implementation (page 6).

Chinese Communist leadership outlines its plans for Asia (Special Article - See III, page 11).

Communist forces in the battle for Central China this week have been successful in isolating two of the three remaining Government centers of resistance (page 7). Meanwhile, the Government is making plans to move its principal offices to Canton and Chungking although CHIANG himself appears determined to remain in Nanking to the bitter end (page 7). The Chinese Communists have reportedly published a list of a hundred "war criminals" which significantly omits numerous high Government "liberal" officials (page 8).

Note: In succeeding sections of this Weekly, the following marginal notations are used:

- (1) "A", "B", or "C" -- importance in B/FE's opinion, of the item, with "A" representing the most important ones.

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SUMMARY (continued)

In Indochina the French, because of an unfavorable military situation, are considering a withdrawal from Tonkin (page 10).

In Indonesia the breakdown of Dutch-Republican conversations may lead to serious economic and political difficulties in the Republic (page 10).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Soviet employment of FEC as propaganda mechanism embarrasses US

"R"

The US is being embarrassed by the USSR's increasing public announcements of Far Eastern Commission (FEC) hitherto confidential debates. For example, the Soviet revelations have led some of the other members to hope that the US will be forced to make public its policy on the future of the Japanese economy. The patent trend of US policy in Japan is away from the original idea of extensive decentralization of Japan's industries adhering to the view that increased Japanese control over their economy will abet its revival. However, the US has never publicly disavowed the concept of "decentralization" so that these member nations have been uncertain as to what tack to take toward the US policy on the future of the Japanese economy.

The increasing pressure on the US to reveal its policy as to the Japanese economy fits in with USSR over-all tactics in using the FEC as a propaganda vehicle. By revealing apparent inconsistencies in the US policies in Japan and by intensifying fears of other nations that such policies will revive a strong Japan, the USSR is attempting to drive a wedge between the US and other members.

Soviet and Indian delegations oppose ECAFE's rehabilitation plan

"R"

Both the Soviet and Indian delegations to the UN Economic Commission for Asia and the Far East, now meeting in Australia, have criticized a \$13.6 billion 5-year industrial development plan which was presented by a working committee to the Commission on 1 December. A member of the large Soviet delegation, which is taking an active part in the sessions, stated that the plan placed development of Asiatic countries on an agricultural basis and was, therefore, unacceptable to the USSR. The Soviet delegate further stated that expansion of national industries with tariff protection was the only sound basis for achieving independence and higher living standards. The Indian delegate, M.C.C. Desai, openly advocated a Marshall Plan and added that the US should take more interest in Asia than in Europe. Desai also stated that Japanese industry should be expanded to provide Asia with the capital goods it needed.

Despite the Soviet and Indian criticism, many delegates emphasized the need for concentration on short-term practical projects and for avoiding ambitious industrial development schemes. Myron K. Cowan, US Ambassador to Australia and Chief US Delegate, indicated his agreement with the emphasis which the rehabilitation plan placed on the need for balancing industrial

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development with modernization of agriculture and the increase of raw materials. Mr. Cowen added that the US desires the Far East itself to find a way to feed its growing population so that foreign exchange assets will be available for promoting a higher standard of living. The Chief US Delegate has been instructed that any US aid to the Far East countries would be extended on an individual basis and that no Far Eastern Marshall Plan is contemplated.

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KOREA

UN approval of South Korean regime will relieve tension. UN approval of the Government of the Republic of Korea as the only lawful government in Korea, which is almost certain during the present GA session, will give the Rhee government certain prestige and should produce greater self-confidence in officials of that government. While the positive effects of UN approval should not be overrated, the lack of such action would increase tension and feelings of instability in South Korea already present as a result of subversive Communist activity and fears of invasion from the North.

"A"

Korean armed forces organization outlined. The Korean National Assembly has enacted an ambitious law for the basic organization of the armed forces. The peace-time Army is authorized 100,000 men, double the number of the existing Constabulary, and the 10,000 man regular Navy authorized would be triple the strength of the present Coast Guard. In addition, Army and Navy militia units of undetermined strength are authorized to supplement the regular forces. The existing para-military rightist youth organizations would provide the majority of recruits for new regular and militia units.

"B"

The law, which in many respects, closely follows defense organizations in the US, gives exceptional powers to the President over details of organization and appointment of key officers. Although the military organization as provided for in the law is sound, the economic weakness of the Republic precludes implementation except with foreign military and economic aid.

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CHINA

Communists occupy Hsuehou, continue to isolate Government forces. Following the "strategic withdrawal" of Nationalist forces from Hsuehou, Communist forces have succeeded in surrounding two of the three remaining Nationalist pockets of resistance. After executing a feint in the Huai River sector Communist units rapidly shifting northwest from the Kuohem-Suhsien-Lingpi triangle have tightly surrounded Government forces in the Yuncheng area who were attempting to drive south from Hsuehou under the command of Gen. TU Yu-ming. (TU Yu-ming took command in Manchuria shortly before the Nationalist debacle there and is well known for his military incompetence). Southwest of Suhsien one of the divisions of the encircled 12th Army Group has already defected to the Communists and the Communist radio has issued a "last warning" to the remainder to follow suit. The Nationalist High Command is of the opinion that the 12th Army Group can only hold out a few days more. When the above pockets of Government resistance have been eliminated the Communists will then be in a position to launch their entire force against the ill-defended Pangfou-Huai River line. US military field observers report recent events indicate the Nationalists are preparing for a hasty retreat from the Pangfou area to Pukou, on the north bank of the Yangtze River across from Nanking. Recent reports indicate confusion is the keynote of the Nationalist High Command and that there is considerable difference of opinion among the planners as to where the last ditch stand should be made; north of the Yangtze or along the river line.

In North China some 50,000 Communists launched a drive in the Kalgan sector, possibly as a prelude to an all-out effort against Gen. FU Tao-yi. If these Communists succeed in taking and securing the Kalgan area, they will have cut FU's purported retreat route into Suiyuan and may force a portion of the North China Nationalists to remain in the area between Peiping and the sea, there to face the main weight of the Communist effort in North China. Meantime, the Nationalists launched an offensive, minor in scope, from Tsingtao with the goal of securing the area adjacent to the city. However, if unconfirmed reports that the Communists are moving elements of their Manchurian forces to the Central China Theater by water via the Gulf of Chihli and thence by land via Shantung are true, these Nationalist units will in all likelihood quickly pull in their horns so as to attract as little attention as possible.

National Government plans to withdraw from Nanking are being formulated even though CHIANG Kai-shek himself appears determined to remain until the last moment. Present plans provide for the principal offices of the Government to move to Canton and Chungking. Individual movement of families of officials is currently underway. The withdrawal

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plans are for the most part unorganized and will probably result in a hurried and disorderly abandonment of Nanking by the Government. This factor, plus the likelihood that when and if CHIANG flees, the remnant National Government will consist of only a few loyal followers nearly totally devoid of prestige, makes it doubtful that the whole Diplomatic Corps will follow immediately. It is more likely that the chiefs of missions with their main diplomatic establishments will follow the indicated intention of the British Commonwealth Missions to remain in Nanking while sending representatives with CHIANG's Government. Barring possible assassination, as long as CHIANG remains in Nanking there is little likelihood that a compromise will be negotiated with the Communists or that any effective attempt will be made from within his following to replace him. However, when Government top officials finally are forced to flee from Nanking, the remaining Government personnel will probably acquiesce in the establishment of Communist authority. At the same time, if the heads of the diplomatic missions fail to move with CHIANG, diplomatic relations with CHIANG's Government will of necessity be greatly curtailed, while relations with non-Nationalist authorities in Nanking will probably be conducted on a de facto basis.

Taiwan pro-Japanese group poses additional disturbing factor.

Recent reports indicate the existence of such a group which may include certain Taiwanese who formerly held positions under the Japanese administration or who had economic ties with the Japanese empire. They may take advantage of popular disillusionment regarding Chinese rule and the potential collapse of the National Government to attempt to bring about a new orientation toward Japan. Although the present strength of this group is not easily estimated, it appears that any such movement would have difficulty in overcoming native resentment of past Japanese policies and popular aspirations toward eventual independence.

"C"

A reported Chinese Communist list of a hundred "war criminals"

omits a number of prominent Nationalists who may play a significant role in a future Communist-dominated coalition government. Among significant personages made conspicuous by omission are: Vice President LI Tsung-jen, whose reform and peace programs have been vetoed by the Generalissimo, is important as CHIANG's legal successor and might assist in bringing liberal anti-CHIANG elements into such a new government; PAI Chung-hsi, SUN Li-jen and others who have significant military power; CHANG Chih-chung and SHAO Li-tsu who have advocated compromise with the Communists through Soviet mediation. These prominent Nationalist figures of considerable ability and occupying important Government posts, have at various times been opposed to CHIANG Kai-shek's policies and could render important services in facilitating the

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advent of a Communist-dominated "coalition" government.

An apparent improvement in the food situation in Nationalist cities "B"
has resulted from increased ECA shipments and increased urban-rural trade. The over-all economic situation, however, is still dominated by uncertainty and instability; economic conditions in various areas of Nationalist China largely reflect current local military situations. Throughout Central and North China there has been a stampede on the part of wealthy Chinese to unload real estate, luxury goods and even rice hoards and to transfer personal wealth into easily portable gold and silver. The Government is reported to have removed stocks of gold, silver, and foreign exchange from Central Bank offices in Shanghai to safe havens in Canton and Hong Kong. In addition there have been reports that the Central Trust is transferring its assets to Taiwan.

Current status of the China Aid Program. "C"
Stepped-up shipments of food to Tientsin, Peiping, Tsingtao and Shanghai are rapidly depleting ECA's China commodity allocation, but sufficient stocks have now been accumulated to feed these cities through the winter. Much of the petroleum allocation for the future is now held in bond in Shanghai. Prospects for using the US \$70 million industrial allocation grow increasingly dim since Taiwan and Canton are now the only accessible industrial areas which the Nationalists may be able to exploit in the foreseeable future.

The prospective fall of Shanghai and Nanking presents the ECA with the alternatives of closing down in those cities or continuing operations under the Communists. Two immediate advantages to the US of continuing aid operations to occupied cities are: 1) such obvious evidence of American altruism to Chinese who suspect the good intentions of the US in China probably would impress the Chinese very favorably; and 2) if the US continues aid shipments until discontinuance is forced by the Communists, the onus of shutting off aid is put on the Communists rather than on the US.

Assuming that the US desires to continue its support of the National Government, future economic aid will be limited by the inability of the greatly reduced and disorganized economy of the National Government to effectively absorb large grants of commodities and equipment. Moreover, it is doubtful that the US will be able to continue a large-scale European Recovery Program and, at the same time, meet commitments to supply raw materials, fuel, food and industrial equipment to China in excess of the present program.

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INDOCHINA

French considering withdrawal from Tonkin. Increasing evidence indicates that the French military position in Tonkin is extremely tenuous, despite the 7-11 November operation which resulted in a slight extension of French control northwest of Hanoi. Isolated posts are subject to constant attrition from disease and Vietnamese attacks, and, in addition, the French lack transport and reserves. The situation is probably a direct result of Viet Minh military strategy, which was apparently aimed at encouraging the French to overextend their lines of communication rather than conducting an organized campaign of resistance. As a result of this generally unfavorable military situation, there have been renewed and stronger reports that the French are again considering: (1) the abandonment of Tonkin, with the exception of its chief ports; and (2) a withdrawal to southern Indochina.

"B"

INDONESIA

Republic apprehensive of renewed Dutch "police action." The breakdown of Dutch-Republican conversations will increase economic and political difficulties in the Republic of Indonesia. Republican leaders are reported as gloomy about the future, but resolute. They feel that the Dutch had no intention of making any reasonable concessions, and are now apprehensive of renewed "police action." On the other hand, all political groups in the Republic have gone on record as opposing any agreement with the Dutch which would impinge upon the Republic's sovereignty. Meanwhile, the Dutch Army Information Service, supported by the pro-Dutch press in Batavia, has again intensified its exaggerated, and often deliberately erroneous propaganda regarding Republican truce violations which may be a buildup to justify military action. There are, however, certain political aspects in favor of the Republic, because it remains a symbol for widespread nationalist aspirations, which may serve to counterbalance Dutch political and contemplated military maneuvers. It has been reported that some influential Indonesian members of the Dutch-sponsored Bandoeng Conference have stated that they would not permit the interim government to be used as a "cat's paw" to order "police action." The Prime Minister of the Dutch-created states of Pasundan and East Indonesia told Republican Premier Hatta that they would not enter the provisional government unless the Netherlands promised not to use force against the Republic. Finally, the Republic is considering a program of establishing autonomous states which include areas now held by the Dutch. Should the Dutch resume "police action", which they are prepared to do, they will meet strong and determined opposition not only from Republican forces, but also from extensive pro-Republican elements in areas now occupied by the Dutch.

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SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

CHINESE COMMUNIST LEADERSHIP OUTLINES ITS PLANS FOR ASIA

"B"

Future Chinese Communist policy has probably been correctly outlined in a recent article by LIU Shao-ch'1, a high-ranking member of the Politburo of the Chinese Communist Party (CCP). LIU's article, "On Internationalism and Nationalism", defines the present Communist strategy and future Communist tactics, and emphasizes the imperative need for unifying the "anti-imperialist" world under the leadership of the USSR.

According to LIU's orthodox Marxian exposition, "bourgeois nationalism's concept of the nation" proceeds "solely from its own narrow class interests ...founded upon capitalist exploitation", which is compelled "to utilize every possible method to seek monopoly over (its own) country and the world." However, the "American imperialist plan for world enslavement accelerates the development of the general crisis of capitalism," and "brings nearer the death of imperialism." The "proletarian" (Communist) concept "advocates moving step by step toward world unity," through a "free federation (of) the various nationalities." To this end, Communists everywhere will "employ every method of unconditional aid to the national liberation movements of colonial and semi-colonial countries."

There is, LIU says, "on the one hand the Soviet Union,...the Mongolian People's Republic,...southeast Europe, liberated North Korea, East Germany, and China's liberated areas," as well as "The people already liberated in Viet Nam, Indonesia, Greece, etc.... On the other hand, 1,300,000,000 (people) directly or indirectly under the rule of a single American imperialism." In this historical crisis, "people must stand either on the one side or on the other.... Neutrality is impossible."

However, at certain times, LIU believes that "the proletariat should cooperate" with bourgeois elements which will help "to overthrow the rule of imperialism...." This policy is not necessarily the best for "India, Burma, Siam, the Philippines, Indonesia, Viet Nam, southern Korea....," but, in general, "Communists should establish anti-imperialist cooperation, ...even though it be unreliable, temporary, and vacillating." In conclusion, "true patriotism reflects the equality of other nationalities,...and advocates the warm unity of the people of all countries."

This policy statement appears genuinely to represent the views of the Marxist-Leninist-Stalinist group presently ascendant in the CCP; that "capitalism" cannot resolve its "contradictions" and is doomed; that a Communist federation will frustrate the "imperialist" effort; that the CCP

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should actively assist Communist movements throughout southeast Asia; that Communist movements in Asia should align themselves firmly with the USSR; that Communist movements in Asia, including the CCP, should pursue a policy of tentative cooperation with non-Communist elements; and, finally, in the Communist dialectic, that the only good nationalist is an internationalist, and the only good internationalist is one who recognizes and will follow the leadership of the USSR.

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